NABISCO, INC.

Annual Report 1979

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held Monday, April 28, 1980 at 10:30 AM in the Ritz-Carlton Hotel, Water Tower Place, Chicago, Illinois.

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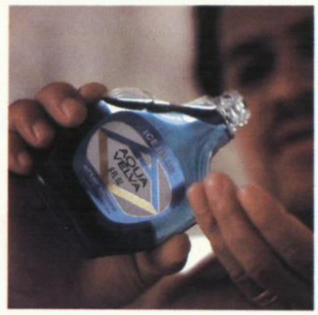
Nabisco, Inc., a worldwide consumer products company, is widely known as a manufacturer of quality cookies, crackers, and snack products. Important brand names include *Premium* Crackers, *Ritz* Crackers, *Oreo* Cookies, *Chips Ahoy* Cookies, *Dromedary* Dates and Pimientos, *Nabisco* Shredded Wheat and *Cream of Wheat* Cereals. Confectionery products, such as *Chuckles* candies, and pet foods under the *Milk-Bone* label are other food products made by Nabisco.

The Company also produces food products in numerous foreign countries keyed to international tastes and local market requirements.

Distribution of 1979 Sales Dollar

In the nonfood product lines, popular brands of toiletry and pharmaceutical products include *Aqua Velva, Rose Milk, Geritol* and *Sominex*. Household accessories, such as *Hygiene* shower curtains and *Everlon* knitted curtains and draperies, are also produced.



The Company ranks among the nation's 150 largest industrial companies and markets its consumer products in more than 100 countries. Nabisco employs approximately 38,000 people at 80 major plants and facilities around the world.

Financial Highlights

(In millions except per share data)	**1979**	1978	% Change
Net Sales	**$2,362.0**	$2,197.3	7.5
Net Income	**99.8**	101.6	(1.8)
Per Share Data(1)			
Net Income	**3.10(2)**	3.16(3)	(1.9)
Dividends Declared	**1.53**	1.41	8.5
Shareholders' Equity	**18.52**	16.94	9.3
Average Shares Outstanding	**32.22**	32.16	.2
Working Capital	**364.3**	338.4	7.7
Current Ratio	**2.09:1**	2.01:1	
Capital Expenditures	**74.2**	66.9	10.9
Total Assets	**1,296.7**	1,265.9	2.4
Return on Average Shareholders' Equity	**17.5%**	19.7%	

(1) Per share amounts are restated for the two-for-one stock split in May, 1978.
(2) Includes a nonrecurring charge of $9.0 million or $.28 per share from the sale of an overseas subsidiary. Excluding this charge per share earnings were $3.38.
(3) Includes a nonrecurring charge of $2.0 million or $.06 per share from the disposition of the *Rival* Brand canned dog food business.

To Nabisco Shareholders:

Robert M. Schaeberle, Chairman of the Board and Chief Executive Officer

Val B. Diehl, President and Chief Operating Officer

We are pleased to report that 1979 was a good year for Nabisco, and our Company closed the year in a strong financial and market position.

1979 Results—An Overview

Sales for 1979 were a new high of $2.36 billion, an increase of 8% over the $2.20 billion reported for 1978. Even after a nonrecurring charge in the third quarter of $.28 per share, net income in 1979 of $99.8 million, or $3.10 per share, was the second highest in the Company's history. This compares with net income for 1978 totaling $101.6 million, or $3.16 per share, after a nonrecurring charge of $.06 per share. Excluding the nonrecurring charges from both years, earnings were $3.38 per share in 1979 versus $3.22 per share in 1978.

Goals and Challenges

Nabisco's position of leadership will enable us to capitalize on growth opportunities that will present themselves in the 1980s. We are intensifying our drive to add new products and businesses through internal development at our research facilities and through acquisition. The long-term goal of 10% to 12% average profit improvement per year is built into our programs for the 1980s.

In looking at Nabisco's future prospects, we have given particular consideration to three important issues: inflation, energy and the growing trend around the world to smaller families. Our special concern is food-price inflation, and we are committed to supporting appropriate actions that will improve the efficiency of the food system and hold our costs and prices down. We have undertaken programs to increase productivity and have assigned specific teams to implement improvements in the processing, distribution and selling functions.

Energy, of course, will continue to be a key issue in the 1980s. We have been successful in reaching goals set forth in our energy conservation program. In addition, we have taken steps to ensure that our Company will continue to have access to energy supplies at competitive prices.

As this annual report will show you pictorially, "Nabisco is at home with families around the world." However, those families are changing, and our plans are to keep pace with the changes. We believe the families of the 1980s will be more sophisticated and better informed. They will demand value and, as a result, will continue to prefer the variety of high-quality products Nabisco produces. In many countries around the world, as well as in the United States, our famous red corner seal is a well-known symbol for quality food products.

Operational Highlights

Record sales and operating income were reported in 1979 by the U.S. food operations which showed strong gains over the prior year. We expect this momentum will continue in 1980. Over the years, our U.S. food operations have proven to be less severely impacted by a recession than many other industries. We believe this will also be the case should 1980 turn out to be a recession year. Nabisco's important U.S. cookie and cracker business enjoyed a good year in 1979. This operation provides a sound base of profits and a direct distribution system well suited to gaining rapid national introduction of new products. A record number of new products are scheduled for introduction in 1980.

International food operations showed excellent gains in sales and earnings in our ongoing businesses for the year just ended. In 1980, we are expecting continued strong performances from virtually every country in which we do business. Real growth is not only coming from developing countries, but also from developed countries, and we anticipate an improvement in opera-

ting margins. Because of rapidly increasing consumer demand, we are significantly expanding production capacity in France, Venezuela and Mexico.

In 1979, the West German confectionery operation was sold. This action was taken after satisfying ourselves that it could not realistically attain our profit objectives within a reasonable time frame. As a part of our strategic planning process, we review each of our operations regularly to determine whether or not it meets our standards for growth and profitability. This is done not only in terms of the operation's current performance, but, more importantly, in terms of future expectations.

The household accessories operation registered sales gains in 1979, but earnings showed marginal improvement from year-earlier levels. The domestic household accessories business showed excellent gains, but local economic pressures caused lower earnings in the South American housewares operation.

The toiletries and pharmaceuticals operation reported a decline in sales and sharply lower operating income in 1979. The less-than-satisfactory results were caused by highly competitive market conditions. A number of new products are scheduled to be introduced in 1980 which, we believe, will add to the substantial recovery expected from this operation.

Dividend Increase

The Board of Directors raised the dividend in October in recognition of the positive outlook for the future of the Company and its strong financial position. The increase in the dividend to $1.62 per share on an annualized basis is consistent with Nabisco's policy of sharing its success with its shareholders.

Dividend Reinvestment Plan Well Received by Shareholders

During the year, Nabisco improved its Dividend Reinvestment Plan for Shareholders. The Company now pays all commissions and fees for the purchase of shares of Nabisco stock through the reinvestment of dividends. The number of shareholders taking advantage of this important opportunity for regular savings and investment more than doubled to 9% of shareholders.

Lee Bickmore to Retire from the Board of Directors

When our Annual Meeting is held in April, Mr. Lee S. Bickmore will retire from Nabisco's Board of Directors and as Chairman of the Executive Committee. We would like to take this opportunity to thank him for his inspiring leadership and for the many outstanding contributions made during his 47 years with our Company. Mr. Bickmore was Nabisco's Chief Executive Officer from 1961 to 1973. Under his leadership, Nabisco expanded its business base to many countries around the world. These operations are now solid profit contributors to the Nabisco of today and will offer even greater opportunities in the future. Mr. Bickmore has not only earned the admiration of all the Nabisco family and friends, but has long been recognized as a leader in the food industry.

Nutrition—A Priority at Nabisco

Sound nutrition comes from eating a variety of foods in the proper amounts. Nabisco products play an important role in supplying their proportionate share of nutrients, along with the enjoyable characteristics of flavor, good taste and texture—all of which are essential to any successful food product. An important part of our ongoing research, development and marketing activities is to look at how Nabisco products can be improved to even better satisfy changing consumer needs for each eating occasion.

Outlook

As we enter the new decade of the 1980s, we are optimistic about our progress, and we are confident that the Company will surpass its performance of the 1970s.

- We are confident of our ability to move ahead with our existing product lines and also into new markets that show promise of extensive growth.
- The international arena offers Nabisco significant opportunity with existing operations for further geographic expansion around the world.
- We have in place a highly qualified, profit-oriented management team which operates in a decentralized structure.
- Our financial position is very sound.
- In order to achieve productivity goals, we are allocating resources to build new production facilities and to equip existing facilities with the newest technology.
- Our research and development activities are being expanded to provide the new products and processes needed for future growth.
- We wish to thank our 38,000 employees around the world for their many important contributions to the Nabisco of today—and for their dedication to the success of the Nabisco of tomorrow.

RM Schaeberle

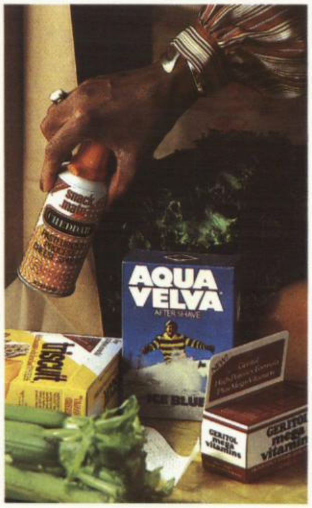
Robert M. Schaeberle
Chairman and Chief Executive Officer

Val B. Diehl

Val B. Diehl
President and Chief Operating Officer

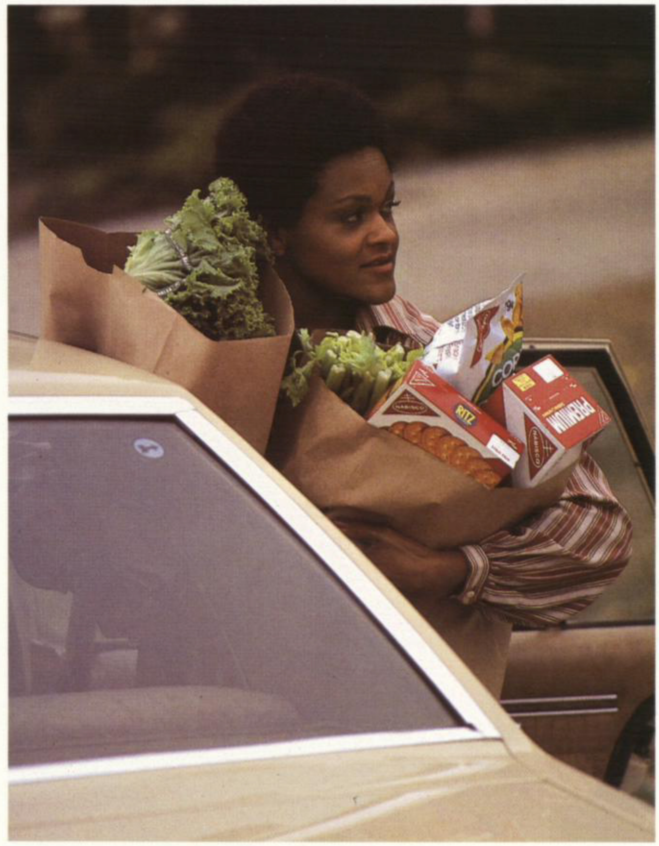
January 28, 1980

Nabisco—At home with families around the world



San Francisco, California
The Hilliard Family

With Nabisco snacks in hand, (from left) Asa IV, Hakim, Patsy, Patricia and Asa III, head off for a day of fun together.

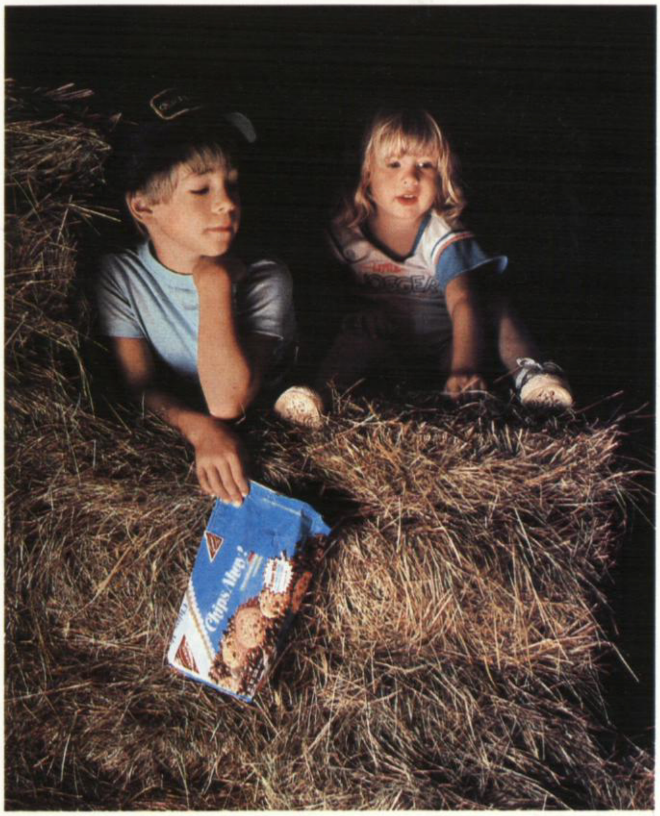


"Sometimes my husband will call home and say Pat, I'm bringing 20 people home, get some cheese and crackers. Well, if we have *Snack Mate* Cheese on the shelf, it's easy. Either one of us can do the decorating at a moment's notice. Sometimes, all you need on hand are Nabisco crackers because they come in such a variety of tastes. You don't need to have cold cuts. Like last night, all I served was wine and crackers, and it was perfect."


wheat
thins

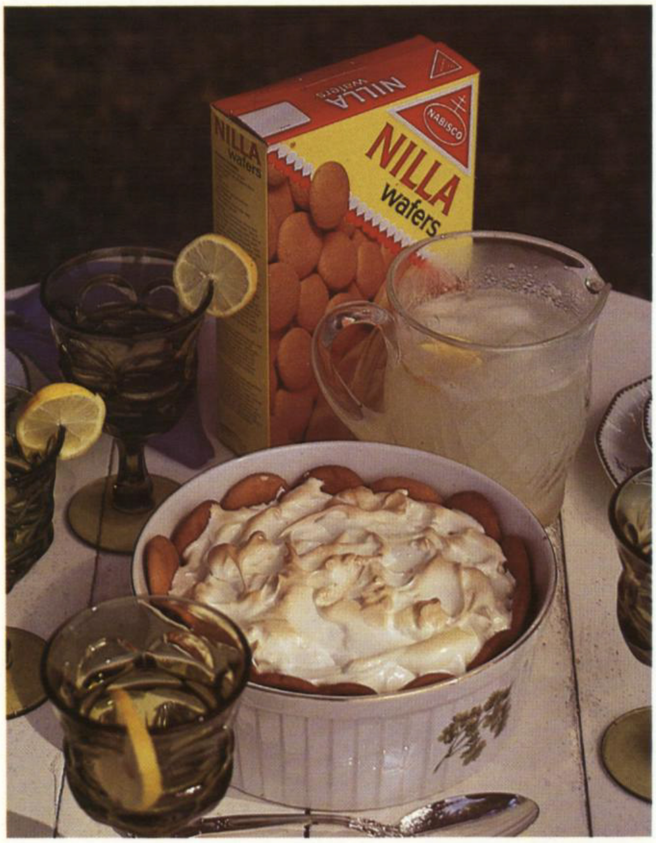
Iantha, Missouri
The Davis Family

Pictured in this wheat field, which will supply Nabisco with quality wheat for a variety of products, are (from left) Jerry, Lendi, Mindi and Matt.



"Because there is such a long time between dinner and supper which is served at 10 or 11 o'clock at night, we like to take our folks a snack along about 5 or 6 o'clock in the evening as a kind of pick 'em up to refresh them and give them a break from the monotony of driving the combines and the trucks all day long. So what we do is fix sandwiches along with crackers and cookies, anything that can be eaten fast and will be nutritious."

Savannah, Georgia
The Davis Family

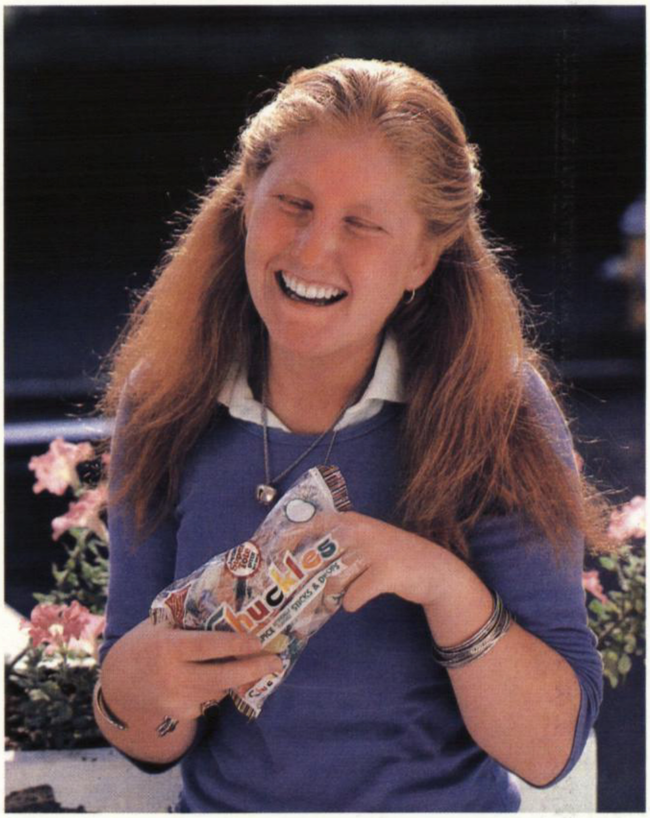


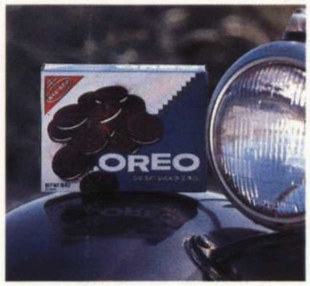
Archie and Sally Davis and their children, Arch and Julia, enjoy lunch on the lawn of their Savannah home.

"The first thing I think of when I hear *Nilla* Wafers is that it was the very first thing my mother taught me how to bake. You'd line a glass with vanilla wafers and spread banana pudding on top. Then another layer of vanilla wafers and on and on. I thought it was such fun, piling up the layers. You'd top it with this magnificent meringue and bake it until the top turned brown."


NILLA
wafers

Nantucket, Massachusetts
The Fee Family



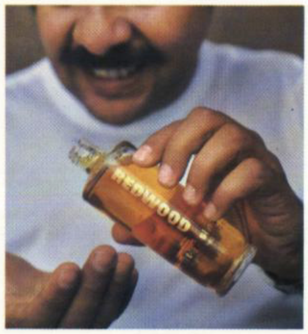


Taking time out from running their restaurant, "The Skipper," from left are Andrew, Barrie, Matthew, Sandra and Henry. (Daughter Sydney not pictured.)

"We buy *Oreo* Cookies because we think they're the best. My sister and I love to split the *Oreo* Cookies in half and eat the filling first." "Yeah, and at the ice cream parlor they break 'em up and serve them with vanilla ice cream."

"Nabisco is an important part of our business. We use *Ritz* Crackers for all our stuffings at the restaurant. We crush them as the base for our baked stuffed shrimps and lobsters." "When we serve up our chowders, it's just natural to include the *Oysterette* Crackers."

Mexico City, Mexico
The Garces Family



"We use many different Nabisco products. On Sundays when we have outings in the park, we often take Marias and *Ritz* Crackers. Nabisco cookies are enjoyed by people all over Mexico. We usually have hotcakes about once a week and use *Mary Baker* Mix because it makes the cooking easy. A special treat is the soup we make with Grano de Oro pasta and chicken stock."

Jose Garces, a data processing manager for Nabisco since 1968, and his wife Irene, children Carlos, Vicente and Jose Martin and their grandmother Maria, enjoy Sunday in Coyoacun Park, Mexico City.


Saiwa
cipster

Venice, Italy
The Martini Family

On the Grande Canal in Venice, (from left) Renzo, Silvia, Vittorina, Pasquale and Matteo return from shopping with a basket of groceries which includes several of their Nabisco favorites.

"My husband eats *Premium* Crackers instead of bread because he likes to stay trim. We also take *Premium* Crackers when we travel because bread is too bulky. At school, the teachers eat *Premium* Crackers between classes because we move from room to room and they're easy to carry in a bag. The students do the same. Everyone at school eats *Premium* Crackers. It's a habit."

Review of 1979 Operations

U.S. Food

U.S. Food

U.S. Food

U.S. Food

U.S. Food

(In millions)	**1979**	1978	1977	1976
Sales	**$1548.2**	$1412.1	$1310.1	$1240.6
Operating Income	**212.3**	193.7	192.9	181.1

Sales and operating income reached record levels in 1979. Continued increases are expected for 1980 despite the generally uncertain outlook for the economy. Previous experiences during such periods have proven the Company's U.S. food operations to be less severely affected by a recession than many other industries.

Biscuit Division

Sales and profits for 1979 were records for the Biscuit Division. Prospects are for continued improvement in 1980.

A strong new product introduction program is scheduled for this year. Because this Division has more than 3,000 salespersons in its direct sales and distribution system, new product introductions are swift and efficient. This distribution system, one of the largest direct store sales and delivery networks in the food industry, is a basic strength of Nabisco's Biscuit Division.

Productivity in the Biscuit Division will be increased in 1980, aided by the start of a major automation program for the total distribution system, including individual sales branch locations as well as distribution centers. This is a long-term program which is expected to generate substantial savings for the Company. In addition, the Division is replacing a number of its delivery trucks with more energy-efficient, diesel-powered vehicles.

Sales for cracker products were strong during 1979, and our product lines turned in performances that reflect this overall market growth. Our *Wheatsworth* Stone Ground Wheat Crackers, the most successful new cracker since the introduction of *Ritz* Crackers, will reach national distribution in 1980. Snack crackers showed the greatest sales gains year to year for both the industry and the Company. *Vegetable Thins* and *Sesame Wheats* did particularly well in this rapidly growing market. New product introductions for 1980 include *Cheddar Triangles,* which have a grated topping for extra flavor and crunch, and savory-flavored *Snacks Ahoy* Snack Crackers.

Oreo, the world's largest selling cookie, produced strong sales gains in 1979 and more importantly increased its market share. Leading the regional introductions in the sweet goods market were the chocolate-covered *Party Grahams* which are scheduled to go national in 1980.

Nabisco's snack food line in flexible packaging achieved national distribution last year and promises to be a major product line for the Company. Capacity limitations existed for the manufacture of our flexible foil packaged snack items, but production will be increased during mid-1980 when an additional plant opens in a centrally located facility near Chicago. New snack products going national this year include *Wheat Chips, Cheese 'n Crunch* and *Buenos* Round Tortilla Chips. Also, a number of other new snacks in flexible packaging are set for regional marketing.

Special Products Division

1979 was the eighth consecutive year of record sales and operating profits for the Special Products Division. The diverse product line sold through grocery chains and wholesale food distributors includes ready-to-eat cereals, hot cereals, dog snacks, dates, pimientos and cake mixes. Sales of our ready-to-eat cereals increased, posting gains in proportion to overall market growth, with *Spoon Size* Shredded Wheat showing the greatest gain. Sales of *Cream of Wheat* Cereal, a leading brand in the hot cereal market, rebounded from the prior year when product was in short supply due to a work stoppage at the Minneapolis plant. *Morning Power*, a new multi-vitamin, iron-fortified hot cereal made from rolled oats and cracked wheat, was successfully test marketed and will move into additional markets in early 1980.

A new soy protein extender, *Tuna Twist* Sandwich and Salad Mix containing natural garden vegetables,


U.S. Food

U.S. Food

U.S. Food

U.S. Food

herbs and seasonings, was introduced in 1979. This product will be available to about 50% of U.S. households in 1980.

The *Milk-Bone* line continued its market leadership position despite increased competition from new products which have entered this expanding market. Beef Flavor *Milk-Bone* Brand dog biscuits showed excellent sales gains, and new Cheese Flavor *Milk-Bone* will be in regional markets in 1980. Other additions to the *Milk-Bone* product line are being test marketed to assure continued growth.

Blue Mountain pet food products, marketed regionally by the Hervin Company subsidiary in the Pacific Northwest, expanded distribution into Northern California. Market share was also increased by new product introductions for both dogs and cats, particularly the *Natural Style* line of foods which is made without preservatives, artificial colors or flavorings.

Freezer Queen Foods, Inc.

Sales and operating results of Freezer Queen Foods were lower in 1979 than a year earlier. However, Freezer Queen has altered its business strategy by adding the *Family Kitchen* label of high-quality frozen gravies and meat entrees to its product line. Last year it had promising results from its introduction of the first line of high-quality, frozen gravy products sold in the United States. In addition, a line of char-broiled meat products will move into distribution in the Northeast.

Food Services Division

Once again, this Division turned in an outstanding performance as its gains in 1979 outpaced the rest of the industry. The continued opportunities in the eating-away-from-home market are a healthy sign for the Food Services Division, which supplies crackers, cookies and other Nabisco food products to food service distributors, vending machine operators and restaurant chains. New marketing efforts are being directed to key segments in institutional feeding operations. In 1980, a new line of dessert products will be introduced, as the Division continues to develop its product line for both food service and vending product distributors.

Confectionery Division

Sales and earnings gains in 1979 were excellent as records were set and market share expanded, largely due to the Confectionery Division's marketing, sales and distribution emphasis on its most important products. *Junior* Mints, a very popular miniature chocolate-covered candy, was the focus of these efforts in 1979, and that product line turned in an outstanding performance. The same strategy will be applied in 1980 to another leading variety in the Confectionery Division.

International Food

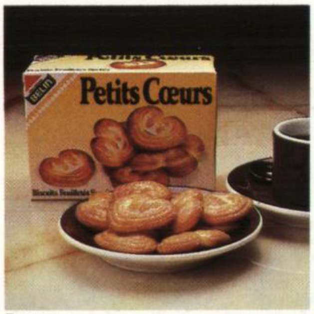
(In millions)	**1979**	1978	1977	1976
Sales	**$597.0**	$561.2	$547.4	$539.6
Operating Income	**40.0**	36.7	27.1	19.6

Nabisco's international food operations showed significant sales and earnings gains in 1979 from continuing operations. Moreover, strong performances are expected in 1980 and beyond in the principal markets in which Nabisco does business. In major European markets—England, France and Italy—Nabisco showed sharply improved sales and operating profits. Australia reported lower results due to a strike in the fourth quarter which adversely impacted results for the full year. New Zealand recorded an increase in both sales and earnings. In 1979, our operations in Canada recorded excellent sales and earnings gains over 1978 levels.

The international product line is made up of more than 850 products, and the manufacturing technology required to produce them is readily transferable among existing markets or to new ones.

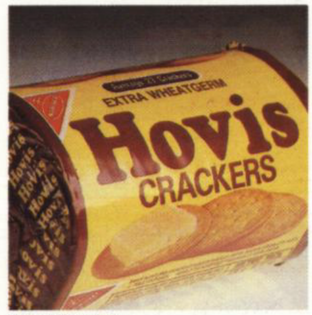
The international food operations' plans are to realize growth through increased volume and market share for cookies and crackers as well as related products, such as ready-to-eat cereals, snacks, pastry, cake mixes, pasta and confections.

One important reason for this growth is the team of highly qualified and experienced nationals who now



France

Japan



United Kingdom

Italy

manage each of the international operations. The knowledge and understanding these employees have of their own country and market is a key to our continued success.

In 1979, Nabisco sold its West German confectionery operation because it was not expected to reach the Company's profit objectives within a reasonable time span.

Some examples of the positive trends in Nabisco's international businesses are as follows:
• Christie, Brown & Co.—Canada: Largest market share ever in Canada for a number of important Nabisco products.
• Biscuits Belin—France: Profits have grown at a compounded rate of 32% since 1973.
• Saiwa-Italy: Strong sales results were led by an 18% volume gain in crackers and snacks in 1979.
• Nabisco, Ltd.—United Kingdom: A resurgence in cereal growth, coupled with an increasing market share in biscuits.
• Nabisco Pty.—Australia: Recognized as a market leader in snack crackers and natural cereals.
• Griffin & Sons—New Zealand: The market leader in biscuits and confections.

Marketing Strategy

International expenditures for marketing have increased substantially in recent years, with good results. Future plans are for more aggressive selling, marketing, advertising and distribution of new products.

Product successes for Nabisco, all backed by the necessary marketing support, include *Hovis* Crackers in England, *Feuillete* Snacks and *Petits Coeurs* Cookies in France, soft cookies in Canada, *Chipstar* Fabricated Potato Chips in Japan and natural cereals in Australia. Of the fourteen biscuit markets in which Nabisco manufactures and sells its products outside the United States, the Company is the leader in Canada, Denmark, New Zealand, Nicaragua, Puerto Rico and Venezuela and holds the number two position in France, Italy, Australia and Mexico.

In the growing snack markets, Nabisco is a leader in France and Italy. Approximately $10 million is being spent on new production facilities to meet expanded snack food sales growth in France. In Australia, the Company has acquired the third largest nut company and will use it to further broaden our product line in the snack market.

In the ready-to-eat cereal market outside the United States, Nabisco is number two worldwide. Our company in Australia is the leader in the expanding natural cereal field, and our Canadian company securely holds the number two position in Canada's cereal market. Nabisco's *Shreddies* is one of the fastest growing cereals in the United Kingdom and Canada, and we have recently entered the ready-to-eat cereal market in Italy with our own brand of corn flakes.

Unconsolidated Foreign Affiliates
(Japan-Venezuela-Mexico)

(In millions)	**1979**	1978	1977
Sales	**$201.1**	$195.3	$149.1
Net Income	**4.1**	7.8	6.7
Nabisco's Share of Net Income	**2.0**	3.9	3.3

Sales and net income of Nabisco-Famosa (Mexico) and Nabisco-La Favorita (Venezuela) showed excellent gains in 1979. Our Mexican operations continue to be an important growth opportunity for Nabisco. La Favorita's results in 1978 were affected by a sustained labor slowdown, but the company recovered in 1979 to establish record results. A second bakery in Venezuela is nearing completion, and a third one in Mexico is in the early stages of construction. This expansion will improve product availability in these two countries where demand has outstripped supply for several years.

Yamazaki-Nabisco, the Company's joint venture in Japan, has increased sales from $29 million in 1973 to more than $130 million in 1979. However, in 1979 Yamazaki was confronted with economic and market restraints that inhibited price increases and led to lower results. This operation continues to be one of the leaders in the snack food market in Japan.

Canada

Mexico

Toiletries and Pharmaceuticals


Household Accessories

Toiletries and Pharmaceuticals

(In millions)	**1979**	1978	1977	1976
Sales	**$149.3**	$162.9	$164.0	$149.1
Operating Income	**.6**	10.8	10.7	10.8

Lower sales and substantially reduced operating profits were reported in 1979 by the toiletries and pharmaceuticals operation.

The primary reason was a highly competitive marketplace in the United States. *Rose Milk* skin care products faced intense competition and declined substantially during the year. Sales of *P.V.M.*, a high-protein powder and meal replacement product, were also substantially lower during 1979. An improved and reformulated *Sominex*, a sleep aid product, was introduced in 1979.

International sales and earnings showed strong gains in 1979, with the toiletries operations in France and Spain showing the most significant improvements.

The Company views this year as a transitional one for the toiletries and pharmaceuticals operation and expects a substantial recovery in 1980 from the less-than-satisfactory 1979 results. A number of new toiletry and pharmaceutical products will be launched this year, which will bolster sales and profits. The 1979 introduction of *P.V.M.* appetite suppressant capsules and tablets has had a promising consumer reception. *Health Works*, a new line of shampoos and hair conditioners, is now being test marketed. *Deep Down*, an analgesic skin rub, and *First Sign*, a single-ingredient nasal decongestant, are two new products that will go into wide distribution in 1980.

Household Accessories

(In millions)	**1979**	1978	1977	1976
Sales	**$67.5**	$61.1	$51.8	$44.6
Operating Income	**9.7**	9.6	7.9	5.1

Sales gains were recorded in 1979, but earnings for our household accessories operation were up only marginally. Excellent profit improvement was posted domestically, but lower returns from the South American housewares operation kept earnings level with 1978.

Record sales and earnings were turned in by Hygiene Industries due to stronger sales growth in vinyl and fabric shower curtains. The biggest increases came from products manufactured for sale to major retail chains under their own brand names, as Hygiene gained two new national retailer accounts during 1979. The *Drylon* water-repellent polyester shower curtains were well received in 1979. They offer the appeal of a fabric curtain while eliminating the need for a vinyl liner. This product has not yet reached its full sales potential and will receive increased marketing support in 1980.

Everlon Fabrics also reported higher sales and earnings in 1979. Everlon's ability to knit fabrics as well as finish, sew and merchandise curtains allows it to provide its retailers with a wide selection of curtains and draperies. Its new line of *Everline* curtains with an interwoven lining that aids in insulating windows is enabling the company to capitalize on the demand for energy conservation. A major national chain was added to its customer list in 1979. Everlon's production expansion during 1979 included a new sewing facility in Clifton, New Jersey, and additional finishing and knitting capacity in the modern Cape May, New Jersey plant.

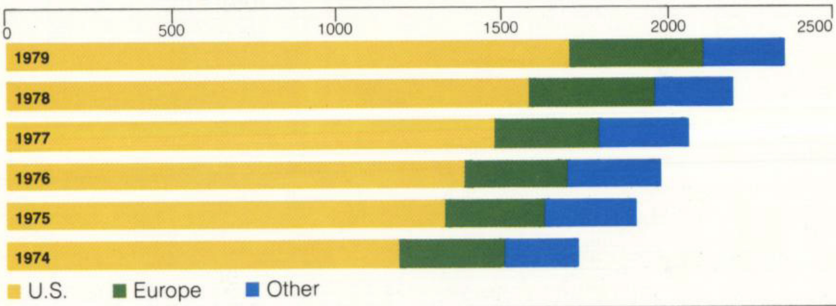
Landers & Cia, Nabisco's housewares manufacturing company in Colombia, S.A. distributes its products primarily in South and Central America under the *Corona* and *Universal* trademarks. During 1979, results were below 1978 because prices could not be raised sufficiently in this highly competitive market to cover cost increases and production capacity was limited. A new manufacturing plant will be built in 1980 in Honduras.

Management Changes

Nabisco continues to develop and recognize leadership potential among its employees. Corporate management was strengthened by the following promotions:

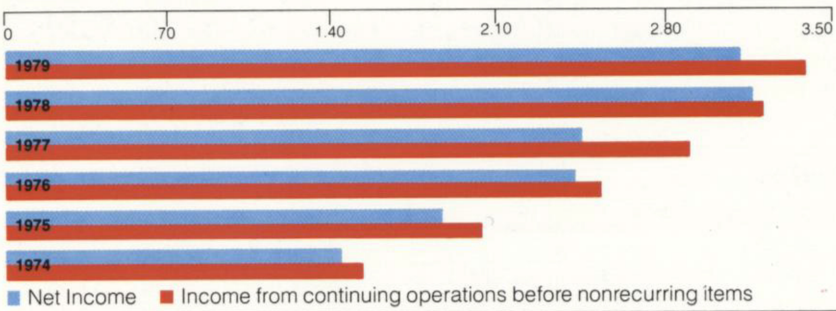
G. F. Randolph Plass, Jr., a Vice President, was appointed President of the Special Products Division. Carol S. Tutundgy, Investor Relations and Wayne W. Guest, Customer Relations, were elected Vice Presidents.

Net Sales—Geographic *(Millions of Dollars)*



Net sales in 1979 of $2,362.0 million, another record high, reflected a compound growth rate over the past five years of approximately 6%.

Income Per Share *(Dollars)*

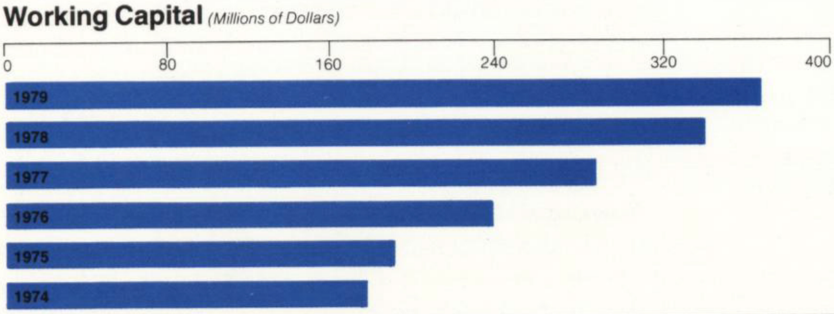


Income from continuing operations before nonrecurring items increased approximately 17% on a compound basis during the five-year period from $1.51 in 1974 to $3.38 in 1979. Nonrecurring items result from terminated operations.

Book Value Per Share *(Dollars)*

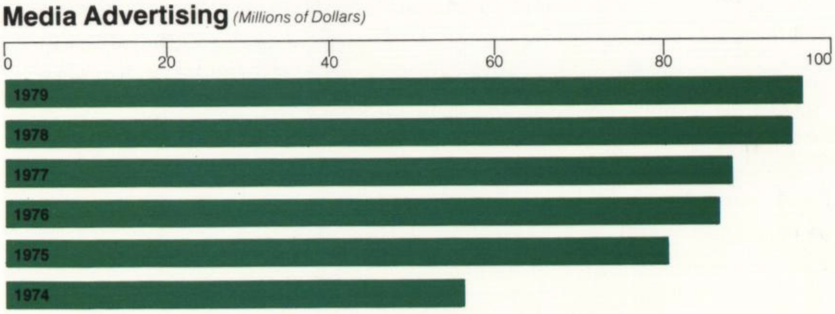
Book value per share reached $18.52 in 1979, an increase of $6.46 over the five-year period ending 1979. This reflects an annual rate of growth of approximately 9%.

Working Capital *(Millions of Dollars)*



Working capital, which represents the excess of current assets over current liabilities grew to $364.3 million in 1979, an increase of $190.3 million from the 1974 level. This reflects an improvement in the current ratio from 1.5 to 1 in 1974 to 2.1 to 1 in 1979.

Media Advertising *(Millions of Dollars)*



Media advertising increased slightly to $96.1 million in 1979, yielding an advertising-to-sales ratio of 4.1% in 1979.

Financial Review

Summary of Operations

(In millions except per share data)	**1979**	1978	1977	1976	1975	1974
Net sales	**$2,362.0**	$2,197.3	$2,073.3	$1,973.9	$1,904.9	$1,728.8
Cost of sales	**1,553.7**	1,429.0	1,354.0	1,294.0	1,291.5	1,227.1
Selling, general and administrative expenses	**570.5**	540.0	499.1	480.2	435.5	380.2
Operating income	**237.8**	228.3	220.2	199.7	177.9	121.5
Miscellaneous expense (income), net	**9.6**	(5.3)	28.9	(5.6)	3.6	(9.4)
Interest expense	**28.1**	24.3	25.0	28.4	31.4	33.2
Income from continuing operations before income taxes	**200.1**	209.3	166.3	176.9	142.9	97.7
Income taxes	**100.3**	107.7	62.4	94.7	79.2	49.5
Income from continuing operations	**99.8**	101.6	103.9	82.2	63.7	48.2
Discontinued line of business						
Loss from operations(1)	**—**	—	(2.2)	(5.2)	(4.7)	(2.7)
Loss on disposal(2)	**—**	—	(23.7)	—	—	—
Net income	**$ 99.8**	$ 101.6	$ 78.0	$ 77.0	$ 59.0	$ 45.5
Per share						
Income from continuing operations	**$ 3.10**	$ 3.16	$ 3.24	$ 2.57	$ 2.00	$ 1.51
Loss from discontinued line of business	**—**	—	(.81)(3)	(.16)	(.15)	(.08)
Net income	**$ 3.10**	$ 3.16	$ 2.43	$ 2.41	$ 1.85	$ 1.43
Dividends declared per share	**$ 1.53**	$ 1.41	$ 1.26	$ 1.20	$ 1.15	$ 1.15
Average shares outstanding	**32.22**	32.16	32.10	31.97	31.92	31.92

(1) Net of income tax credits of $2.8, $4.4, $3.6, $2.3 for the years 1977 to 1974, respectively.
(2) Net of income tax credit of $22.6.
(3) Includes loss on disposal of toy and game subsidiary of $.74 per share.

1979 Operations Compared With 1978 Operations
Sales—Consolidated net sales in 1979 rose $164.7 million to $2,362.0 million, an increase of 8% over the $2,197.3 million reported in 1978. On a comparable basis, after adjusting for operations either terminated or sold in both years, 1979 sales would have been 10% higher than in 1978. Contributing to this growth were significant gains by many of Nabisco's operating units.

Nabisco's U.S. food operations' sales continued to grow on a year-to-year basis, with 1979 posting a 10% increase to $1,548.2 million compared with $1,412.1 million a year earlier. Although the high rate of inflation put heavy pressure on costs necessitating price increases which contributed significantly to this gain, volume increases were achieved in many areas. Crackers experienced good gains buoyed by the launch of a major new product, *Wheatsworth* Stone Ground Wheat Crackers. Also, strong volume increases were attained by both the food services and confectionery operations.

International food operations continued to report improved results with sales of $597.0 million, up $35.8 million or 6% over the prior year. European operations again reported strong gains, with England, France and Italy the main contributors. New Zealand turned in excellent results with volume increases resulting primarily from new product introductions and successful promotional efforts. Canadian operations reported a good sales performance, with results up approximately 6%.

In Nabisco's nonfood segments, the household accessories operation showed strong gains. Results of the toiletries and pharmaceuticals segment were down from year earlier levels, due primarily to volume shortfalls in the domestic market resulting from competitive pressures. However, international toiletry operations showed good gains, particularly in France and Spain.

Financial Review
(continued)

Quarterly Financial Data
(In millions except per share data)

1979	1st	2nd	3rd	4th
Net sales	$552.3	$574.2	$592.4	$643.1
Gross profit	189.8	194.0	202.8	221.7
Net income	22.5	25.0	16.8	35.5
Per share				
Net income	.70	.78	.52	1.10
Dividends paid	.375	.375	.375	.375
Stock Prices				
High	25½	25	24⅞	24⅞
Low	23	22¼	22	20⅝
1978				
Net sales	$515.2	$515.9	$546.4	$619.8
Gross profit	178.6	176.8	194.9	218.0
Net income	20.9	22.4	23.7	34.6
Per share				
Net income	.65	.70	.73	1.08
Dividends paid	.315	.345	.345	.345
Stock Prices				
High	25¼	26½	28⅛	28½
Low	23	23½	23⅛	23⅜

Geographic Areas
(Dollars in millions)

	Sales		Operating Income		Identifiable Assets	
1979	Amount	%	Amount	%	Amount	%
United States	$1,703.6	72	$216.5	83	$ 717.7	62
Europe	401.6	17	24.0	9	246.0	21
Other	256.8	11	22.1	8	200.7	17
Total Segments	2,362.0	100	262.6	100	1,164.4	100
Unallocated						
Corporate	—		(24.8)		132.3	
Total	$2,362.0		$237.8		$1,296.7	
1978						
United States	$1,584.6	72	$208.6	83	$ 685.2	59
Europe	364.0	17	22.7	9	289.0	25
Other	248.7	11	19.5	8	183.6	16
Total Segments	2,197.3	100	250.8	100	1,157.8	100
Unallocated						
Corporate	—		(22.5)		108.1	
Total	$2,197.3		$228.3		$1,265.9	

Operating income—U.S. food operating income rose $18.6 million in 1979 to $212.3 million compared to $193.7 million in 1978. Increased profits resulting from higher sales were partially offset by escalating costs of raw and packaging materials, particularly flour, shortening and sugar. Profit increases were also restricted by the higher costs of labor and employee benefits. Margins were maintained with the aid of higher prices required to counter the impact of higher costs.

International food operating income amounted to $40.0 million in 1979, an increase of 9% over the $36.7 million reported in 1978. This resulted in a slight margin improvement as cost increases for ingredients such as shortening and sugar, along with escalating labor and other employee costs, were recouped by price increases and volume gains. Canada, England, France and Italy contributed significantly to this improvement. These results were achieved despite increased operating losses by the West German confectionery operation which was sold as of September 30, 1979.

Household accessories showed marginal gains in operating income. Domestic operations had strong gains due primarily to volume increases and successful new product introductions. However, these gains were substantially offset by lower operating income in the South American operation caused by temporary economic pressures. The toiletries and pharmaceuticals operation was down substantially due primarily to sales shortfalls, cost increases and marketing expenses related to new product introductions.

Miscellaneous expense (income), net amounted to an expense of $9.6 million in 1979 compared to income of $5.3 million in 1978. The change was primarily due to a nonrecurring charge in 1979 of $17.8 million relating to the sale of the West German confectionery operation. Interest income on short-term investments increased $9.0 million to $17.9 million in 1979. Foreign exchange adjustments resulting from translation, transactions and forward foreign exchange contracts amounted to an $8.5 million loss in 1979 compared to a loss of $5.3 million in 1978. Forward foreign exchange contracts are used to hedge foreign inventory exposures and translation exposures as defined under SFAS No. 8. The difference between translating such exposed inventories at historical versus current rates resulted in favorable adjustments to cost of sales of $2.9 million and $4.7 million in 1979 and 1978, respectively.

Business Segments
(Dollars in millions)

1979	Sales Amount	%	Operating Income Amount	%	Identifiable Assets Amount	%	Capital Expenditures Amount	%	Depreciation Expense Amount	%
United States Food	$1,548.2	66	$212.3	81	$ 631.7	54	$53.6	73	$27.9	67
International Food	597.0	25	40.0	15	404.4	35	15.8	22	11.1	26
Total Food	2,145.2	91	252.3	96	1,036.1	89	69.4	95	39.0	93
Toiletries & Pharmaceuticals	149.3	6	.6	—	81.0	7	1.3	2	1.8	4
Household Accessories	67.5	3	9.7	4	47.3	4	2.7	3	1.2	3
Total Segments	2,362.0	100	262.6	100	1,164.4	100	73.4	100	42.0	100
Unallocated Corporate	—		(24.8)		132.3		.8		.3	
Total	$2,362.0		$237.8		$1,296.7		$74.2		$42.3	
1978										
United States Food	$1,412.1	64	$193.7	77	$ 589.5	51	$40.3	61	$24.8	63
International Food	561.2	26	36.7	15	436.2	37	21.7	33	11.4	29
Total Food	1,973.3	90	230.4	92	1,025.7	88	62.0	94	36.2	92
Toiletries & Pharmaceuticals	162.9	7	10.8	4	87.7	8	2.0	3	1.9	5
Household Accessories	61.1	3	9.6	4	44.4	4	1.6	3	1.1	3
Total Segments	2,197.3	100	250.8	100	1,157.8	100	65.6	100	39.2	100
Unallocated Corporate	—		(22.5)		108.1		1.3		1.3	
Total	$2,197.3		$228.3		$1,265.9		$66.9		$40.5	

The Company's products are classified in three worldwide business segments: food (U.S. and international) comprised principally of cookies, crackers, snack foods, cereals and pet foods; toiletries and pharmaceuticals; and household accessories consisting of plastic and cloth shower curtains, knitted curtains and small appliances.

Unallocated Corporate consists primarily of the following:
Operating Income—General and administrative expenses.
Identifiable Assets—Fixed assets and capital leases at World Headquarters, corporate cash, short-term investments and assets of discontinued line of business.
Capital Expenditures—For World Headquarters administrative facilities.
Depreciation—On depreciable assets of World Headquarters administrative facilities.

Income taxes in 1979 amounted to $100.3 million, a decrease of $7.4 million from the $107.7 million reported in 1978. The tax provision for 1979 was 50% of pretax income compared with 51% in 1978. The decrease in the effective tax rate was due primarily to the change in the U.S. Federal tax rate from 48% to 46%.

Net income decreased slightly in 1979 to $99.8 million, or $3.10 per share compared to $101.6 million, or $3.16 per share, in 1978. Net income includes nonrecurring charges of $.28 per share in 1979 relating to the sale of the West German operation and $.06 per share in 1978 attributable to the termination of the *Rival* Brand canned dog food business. After excluding these adjustments, net income increased 5% to $3.38 per share in 1979 compared with $3.22 per share in 1978.

1978 Operations Compared With 1977 Operations

Sales—Consolidated net sales increased 6% in 1978 to $2,197.3 million from $2,073.3 million in 1977. On a comparable basis, adjusting for terminated and deconsolidated operations, sales would have been 10% higher in 1978.

U.S. food operations showed strong gains in 1978, with an increase of 8% to $1,412.1 million associated mainly with price increases. However, strong volume gains were experienced in the snack food line, ready-to-eat cereals and *Milk-Bone* Brand dog biscuits.

International food operations' sales were up 3% in 1978 with European operations, particularly France, England and Italy, contributing to this gain with both price and volume increases. Canadian sales, up 5% in

Financial Review
(continued)

1978, also contributed to the improvement.

Household accessories were up sharply to $61.1 million due to volume increases and successful new product placements while the toiletries and pharmaceuticals operation approximated year earlier levels.

Operating income of the U.S. food operations increased to $193.7 million in 1978 from $192.9 million in 1977 with operating profit margins aided by higher prices instituted to counter the impact of cost increases.

International food operations showed improved operating results and margins as selling price increases and lower raw material costs more than offset other operating cost increases. Operating income increased by $9.6 million, or 35%, in 1978.

The household accessories segment, aided by volume increases, continued its improvement in operating profit and margin in 1978, while toiletries and pharmaceuticals results were about equal to 1977.

Miscellaneous expense (income), net amounted to income of $5.3 million in 1978 compared to an expense of $28.9 million in 1977. The change was due primarily to a nonrecurring charge in 1977 of $32.8 million related to the termination of an overseas cookie and cracker subsidiary. Losses from foreign exchange adjustments amounted to $5.3 million compared to $2.1 million in 1977.

Income taxes increased to $107.7 million in 1978 mainly attributable to the absence in that year of a nonrecurring tax credit in 1977 derived from the writeoff of the overseas subsidiary. The absence of this credit also contributed to the increase in the effective tax rate from 38% in 1977 to 51% in 1978.

Net income in 1978 increased to $101.6 million, or $3.16 per share, after a nonrecurring charge of $.06 per share for the termination of the *Rival* Brand canned dog food business. This compared to income in 1977 of $92.4 million, or $2.88 per share, representing income from continuing operations before a nonrecurring gain of $.36 per share related to the termination of the overseas operation. The year-to-year improvement was 12% after excluding the above nonrecurring items from both years.

Other Financial Data
(In millions of dollars except per share data)

	1979	1978	1977	1976	1975	1974
Working capital	**$ 364.3**	$ 338.4	$ 286.6	$ 234.0	$ 187.8	$ 174.0
Plant and equipment	**494.1**	489.8	477.0	489.2	478.8	430.4
Capital expenditures	**74.2**	66.9	57.5	56.4	86.0	70.9
Depreciation expense	**42.3**	40.5	38.6	38.1	35.3	32.7
Total assets	**1,296.7**	1,265.9	1,124.9	1,122.3	1,079.7	1,085.3
Short-term debt	**14.7**	13.3	14.5	50.0	66.3	173.8
Long-term debt	**253.2**	268.9	274.2	282.8	286.8	260.7
Shareholders' equity	**596.2**	544.4	486.7	446.9	407.1	384.8
Shareholders' equity per share	**18.52**	16.94	15.18	13.98	12.76	12.06
Long-term debt to capitalization	**29.8%**	33.1%	36.0%	38.8%	41.3%	40.4%
Return on average shareholders' equity	**17.5%**	19.7%	16.7%	18.0%	14.9%	11.9%
Market price per share at year-end	**21⅞**	25⅜	23⅝	25¼	19¼	11

Data Adjusted for General Inflation
(In millions of dollars except per share data)

	1979	1978	1977	1976	1975	1974
Net sales	**$2,362.0**	$2,445.8	$2,484.5	$2,518.0	$2,570.2	—
Cash dividends declared per share	**1.53**	1.57	1.51	1.53	1.55	—
Market price per share at year-end	**21⅞**	28¼	28¼	32¼	26	—
Average consumer price index (1967=100)	**217.5**	195.4	181.5	170.5	161.2	—

Supplementary Information on Effects of Inflation

General Background

Nabisco's financial statements are prepared in accordance with generally accepted accounting principles and therefore are based on historical costs. Such statements are not intended to measure the effects of inflation or relative economic value. To provide users of financial statements with supplemental information on the effects of inflation, the Financial Accounting Standards Board has issued Statement No. 33, Financial Reporting and Changing Prices.

The supplementary "Data Adjusted for General Inflation" and the "Consolidated Schedule of Income Adjusted for General Inflation" are expressed in "constant dollars" which are calculated by adjusting historical amounts by the Consumer Price Index for All Urban Consumers (CPI/U), as required by the Statement.

Management's Overview

Five-year comparison—Historical sales show an annual compound growth rate of 5.5% while inflation-adjusted sales would indicate a decline. However, during this period Nabisco disposed of certain operations and deconsolidated others. After eliminating sales for these operations to provide a more consistent basis for comparison, historical sales grew at a 7.4% compound rate which approximated the rate of general inflation during this period. Because the CPI/U includes changes in prices of many items other than those sold by Nabisco and considering the portion of the Company's sales which occur in foreign countries, the results of this restatement may be misleading.

During the past five years and in line with its stated goals, Nabisco has reduced the payout ratio of cash dividends from over 60% to between 40% and 50%. This has provided shareholders with cash dividends declared per share on a constant dollar basis which has allowed them to maintain their purchasing power. At the same time, the Company has been able to accumulate funds to pursue an active program of capital expenditures and acquisitions for future growth.

Current-year statement—Net income, restated for inflation, shows a decrease of 54% from the historical basis. Since the CPI/U reflects more than just the changes in the prices of goods and services used by Nabisco in the manufacture of its products, the Company believes that the required restatement of net income may not represent the specific effect of inflation on its operations.

Additionally, the assumptions underlying the depreciation calculations are tantamount to replacing existing fixed assets with identical assets merely adjusted for changes in the CPI/U. In most cases, management would replace existing assets with those of improved technology, thus resulting in cost savings. The Company also believes the decrease in net income should not be viewed in isolation. Instead, one should consider the "Gain from decline in purchasing power of net amounts owed" which results from repaying net monetary liabilities with dollars of lesser value due to inflation. If this gain were added to earnings, constant dollar net income would have decreased by only 13% from historical net income.

Finally, the Statement does not permit income taxes to be restated for inflation. Because income taxation is not based on real economic gain, the effective tax burden is often greater than that indicated by statutory rates. Therefore, if the historical income tax expense is applied against income restated for the effects of inflation on cost of sales and depreciation, an effective tax rate of 69% would result. This compares to a reported effective rate of 50%. While net income in constant dollars has declined significantly, income before taxes on the same basis has only decreased 27%. This underscores the failure of present tax laws to adequately provide, through depreciation allowances, for the escalating cost of replacing capital assets. This diminishment in real corporate profits is one of the root causes of the low capital formation and resulting lack of growth in productivity in the United States.

Consolidated Schedule of Income Adjusted for General Inflation
(In millions except per share data)

	December 31, 1979	
	Historical basis	Adjusted for general inflation
Net sales	$2,362.0	$2,362.0
Cost of sales[1]	1,528.0	1,558.2
Depreciation expense[2]	42.3	65.9
Other expenses	563.5	563.5
Interest expense	28.1	28.1
Provision for income taxes	100.3	100.3
Net income	$ 99.8	$ 46.0
Net income per share	$ 3.10	$ 1.43
Gain from decline in purchasing power of net amounts owed	—	$ 40.5
Net assets[3]	$ 596.2	$ 827.5

(1) Cost of sales has been adjusted to constant dollars by utilizing the applicable 1979 CPI/U.

(2) Constant dollar depreciation is based on fixed assets restated to average 1979 dollars, using the change in the CPI/U from the original acquisition date and then applying the Company's depreciation policy.

(3) Net assets, as restated, includes inventories and fixed assets adjusted by the average 1979 CPI/U. Had the adjustments been determined by using the December 1979 CPI/U, net assets would have been approximately $890 million.

Conclusion

Although we do not agree with certain of the assumptions and calculations required by the "constant dollar" approach to be used in adjusting historical amounts for inflation, we believe that the data presented, while not precise, provide a general indication of the effects of changing prices on the Company. For this reason, we support the Financial Accounting Standards Board in its belief that it is important for financial statement users to have access to information which would lead to an increased understanding of the impact of inflation on financial statements. It is our view that selected inflation data should remain on a supplementary basis pending the results of the extensive experimentation period by preparers and users of this information.

Responsibility for Financial Statements

The management of Nabisco, Inc. is responsible for the preparation, integrity and accuracy of its financial statements as well as all other information included in the Annual Report, unless otherwise noted. The statements have been prepared in conformity with generally accepted accounting principles consistently applied, using management's best estimates and judgments, where appropriate.

The system of internal controls of the Company and its subsidiaries is designed to provide reasonable assurance that the books and records reflect the transactions of Nabisco and that established policies and procedures are carefully followed. This system is augmented by written policies and guidelines, a strong program of internal audit and the careful selection and training of qualified personnel.

Coopers & Lybrand, independent certified public accountants, have made an examination of the financial statements in accordance with generally accepted auditing standards that include tests of transactions and selective tests of internal accounting controls. The Audit Committee of the Board of Directors, consisting solely of nonemployee directors, meets regularly with the independent auditors and management—both jointly and separately—to review accounting, auditing and financial reporting matters. Both the internal and independent auditors have direct access to the Audit Committee.

RM Schaeberle

Robert M. Schaeberle
Chairman and Chief Executive Officer

CR Owens

C. Richard Owens
Senior Vice President and Chief Financial Officer

Report of Auditors

To the Shareholders of Nabisco, Inc.:

We have examined the consolidated balance sheets of Nabisco, Inc. and its subsidiaries as of December 31, 1979 and 1978, and the related consolidated statements of income and retained earnings, capital stock and additional paid-in capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Nabisco, Inc. and its subsidiaries at December 31, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

1251 Avenue of the Americas
New York, N.Y. 10020
January 28, 1980

Coopers & Lybrand

Consolidated Statement of Income and Retained Earnings

	Year Ended December 31	
	1979	1978
Net sales	**$2,362,045,000**	$2,197,277,000
Cost of sales	**1,553,660,000**	1,428,956,000
Gross profit	**808,385,000**	768,321,000
Selling, general and administrative expenses	**570,562,000**	540,024,000
Operating income	**237,823,000**	228,297,000
Miscellaneous expense (income), net	**9,611,000**	(5,260,000)
Interest expense	**28,100,000**	24,271,000
Income before income taxes	**200,112,000**	209,286,000
Income taxes		
Current		
United States	**70,511,000**	74,195,000
Foreign	**14,515,000**	12,165,000
State and local	**11,486,000**	11,422,000
Deferred	**3,824,000**	9,951,000
Total income taxes	**100,336,000**	107,733,000
Net income	**99,776,000**	101,553,000
Retained earnings, beginning of year	**460,122,000**	403,800,000
Dividends declared, $1.53 per share in 1979 and $1.41 per share in 1978	**(49,192,000)**	(45,231,000)
Retained earnings, end of year	**$ 510,706,000**	$ 460,122,000
Net income per share	**$3.10**	$3.16

(Financial statements should be read in conjunction with the statement of significant accounting policies on page 31 and notes to financial statements on pages 32 through 34.)

Consolidated Balance Sheet

ASSETS	December 31 1979	1978
Current assets		
Cash	**$ 11,356,000**	$ 8,115,000
Short-term investments, at cost which approximates market	**129,716,000**	111,328,000
Accounts receivable		
Trade	**209,498,000**	203,734,000
Other	**16,201,000**	16,276,000
Inventories		
Finished products	**149,136,000**	151,207,000
Raw materials and supplies	**183,338,000**	178,953,000
Net assets of discontinued line of business	**—**	2,303,000
Total current assets	**699,245,000**	671,916,000
Property, plant and equipment		
Land	**14,228,000**	14,652,000
Buildings	**272,741,000**	274,053,000
Machinery and equipment	**605,514,000**	595,364,000
	892,483,000	884,069,000
Less accumulated depreciation	**398,430,000**	394,267,000
Property, plant and equipment, net	**494,053,000**	489,802,000
Other assets	**60,561,000**	48,344,000
Excess of investments in consolidated subsidiaries over net assets	**42,855,000**	55,860,000
Total assets	**$1,296,714,000**	$1,265,922,000

(Financial statements should be read in conjunction with the statement of significant accounting policies on page 31 and notes to financial statements on pages 32 through 34.)

LIABILITIES	December 31 1979	1978
Current liabilities		
Short-term debt		
Bank loans and other	**$ 8,125,000**	$ 7,601,000
Current portion of long-term debt	**6,559,000**	5,734,000
Accounts payable		
Trade	**96,555,000**	103,698,000
Other	**17,675,000**	14,325,000
Accrued liabilities	**143,099,000**	132,443,000
Dividend payable	**13,024,000**	12,037,000
Income taxes	**49,920,000**	57,672,000
Total current liabilities	**334,957,000**	333,510,000
Long-term debt	**253,186,000**	268,933,000
Other liabilities	**24,568,000**	35,174,000
Deferred income taxes	**69,355,000**	65,961,000
Unamortized investment tax credit	**14,937,000**	14,507,000
Minority interests in consolidated subsidiaries	**3,499,000**	3,431,000
SHAREHOLDERS' EQUITY		
Capital stock, common-par value $2.50, shares authorized 48,000,000	**80,699,000**	80,603,000
Additional paid-in capital	**6,756,000**	6,148,000
Retained earnings	**510,706,000**	460,122,000
Treasury stock, at cost	**(1,949,000)**	(2,467,000)
Total shareholders' equity	**596,212,000**	544,406,000
Total liabilities and shareholders' equity	**$1,296,714,000**	$1,265,922,000

Consolidated Statement of Changes In Financial Position

	Year Ended December 31 1979	1978
Financial resources provided		
Net income	**$ 99,776,000**	$101,553,000
Charges to income not affecting working capital		
Depreciation	**42,263,000**	40,464,000
Deferred income taxes and investment tax credit	**3,824,000**	9,951,000
Loss on sale of foreign operation	**14,195,000**	—
Working capital provided from operations	**160,058,000**	151,968,000
Deferred income taxes—discontinued line of business	**—**	15,967,000
Noncurrent net assets of foreign operation sold	**2,781,000**	—
Disposals of property, plant and equipment	**4,963,000**	7,970,000
Increase in other long-term debt	**2,001,000**	188,000
Increase in other liabilities	**3,490,000**	5,103,000
Other, net	**100,000**	5,068,000
Total financial resources provided	**173,393,000**	186,264,000
Financial resources applied		
Capital expenditures	**74,183,000**	66,867,000
Dividends declared	**49,192,000**	45,231,000
Current installment and repurchase of debentures	**10,860,000**	4,885,000
Increase in other assets	**13,276,000**	17,522,000
Total financial resources applied	**147,511,000**	134,505,000
Increase in working capital	**$ 25,882,000**	$ 51,759,000
Increase (decrease) in the components of working capital		
Cash and short-term investments	**$ 21,629,000**	$ 61,305,000
Accounts receivable	**5,689,000**	25,130,000
Inventories	**2,314,000**	45,371,000
Net assets of discontinued line of business	**(2,303,000)**	(19,480,000)
Short-term debt	**(1,349,000)**	1,149,000
Other current liabilities	**(98,000)**	(61,716,000)
Increase in working capital	**$ 25,882,000**	$ 51,759,000

(Financial statements should be read in conjunction with the statement of significant accounting policies on page 31 and notes to financial statements on pages 32 through 34.)

Consolidated Statement of Capital Stock and Additional Paid-in Capital

(Dollars in thousands)

	Common Stock				Additional Paid-in Capital
	Issued		Treasury Stock		
	Shares	Amount	Shares	Amount	
Balance, January 1, 1978	32,182,042	$80,455	(110,770)	($2,697)	$5,105
Issued in connection with:					
Exercise of stock options	57,904	145	—	—	1,027
Incentive compensation plans	—	—	15,498	378	—
Conversion of debentures	1,267	3	—	—	30
Treasury stock acquired	—	—	(6,140)	(148)	(14)
Balance, December 31, 1978	32,241,213	80,603	(101,412)	(2,467)	6,148
Issued in connection with:					
Exercise of stock options	38,440	96	—	—	621
Incentive compensation plans	—	—	24,516	597	—
Treasury stock acquired	—	—	(3,330)	(79)	(13)
Balance, December 31, 1979	32,279,653	$80,699	(80,226)	($1,949)	$6,756

(Financial statements should be read in conjunction with the statement of significant accounting policies on page 31 and notes to financial statements on pages 32 through 34.)

Statement of Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. For companies in which it has a substantial interest but owns less than a majority, Nabisco uses the equity method of accounting and, accordingly, records its share of net income in "Miscellaneous expense (income), net." All material intercompany accounts and transactions have been eliminated.

The financial statements of subsidiaries operating outside of the United States and Canada are included on a fiscal-year basis ending November 30 to facilitate prompt reporting of year-end consolidated results.

Inventories are valued at the lower of cost or market, with cost generally determined on the average method.

Property, plant and equipment are recorded at cost. Facilities leased under capital leases are recorded in property, plant and equipment, with the corresponding obligations carried in short- and long-term debt. The amount capitalized is the lower of the present value of the minimum lease payments or the fair value of the leased property. For financial reporting purposes, depreciation on buildings, machinery and equipment is generally provided on a straight-line basis over the estimated useful lives of the assets or over the lease term for capital leases.

Depreciation is based on the following useful lives: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years.

Expenditures that result in the enhancement of the assets involved are capitalized. Maintenance and repair costs are expensed when incurred. Upon sale or other disposition, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

Excess of investments in consolidated subsidiaries over net assets—For businesses acquired prior to 1971 and accounted for as purchases, the excess of the acquisition cost over the fair value of the net assets is not amortized because in the opinion of management, there has been no diminution of value. The excess relating to acquisitions made in 1971 and thereafter is being reduced by annual charges against income over a 40-year period.

Income taxes—Deferred income taxes, principally U.S. Federal taxes, are provided for timing differences between financial and taxable income. Such differences result primarily from the use of accelerated depreciation methods for tax purposes which provide more depreciation expense in the early years than in the later years of the lives of the assets being depreciated.

Investment tax credit—Nabisco generally recognizes the U.S. investment tax credit earned on qualified capital additions by reducing income tax expense over the estimated useful lives of the related assets.

Net income per share is based on the weighted-average number of shares outstanding during the periods presented after giving effect to the potential dilutive effect of the exercise of stock options.

Notes to Financial Statements

Disposals of operations—Effective September 30, 1979, the Company sold its West German confectionery operation, B. Sprengel GmbH & Co., which resulted in a nonrecurring charge of $17,800,000 that is included in the caption "Miscellaneous expense (income), net." The net loss resulting from this sale was $9,000,000, or $.28 per share. In August 1978 the Company terminated its *Rival* Brand canned dog food business, resulting in a charge to net income of $2,000,000, or $.06 per share.

Short-term investments consist of Eurodollar time deposits and certificates of deposit.

Other assets consist of notes receivable related to the disposals of certain operations, prepaid expenses, deferred charges and investments/advances to unconsolidated affiliates and others.

Short-term debt—The following summarizes information pertaining to short-term borrowings:

	1979	1978
Average amount outstanding during the year (based on month-end amounts)	**$28,000,000**	$19,000,000
Maximum amount outstanding at any month-end	**$55,000,000**	$38,000,000
Weighted-average interest rate during the year (based on month-end borrowings and related interest rates)	**11.14%**	9.39%
Weighted-average interest rate at December 31	**14.56%**	11.59%

During 1979, the Company entered into a $100,000,000 revolving credit agreement with a group of banks. This agreement, along with bank lines of credit, provides Nabisco with future domestic and international credit availability and supports the issuance of commercial paper. Unused lines of credit amounted to $193,000,000 and $87,600,000 at December 31, 1979 and 1978, respectively.

	December 31	
Accrued liabilities:	**1979**	1978
Payrolls	**$ 58,050,000**	$ 51,979,000
Trade discounts	**20,151,000**	19,970,000
Taxes, other than income taxes	**13,504,000**	10,143,000
Interest	**3,743,000**	3,832,000
Pensions	**15,546,000**	12,300,000
Other	**32,105,000**	34,219,000
Total	**$143,099,000**	$132,443,000

	December 31	
Long-term debt:	**1979**	1978
6½% Guaranteed Debentures due October 1, 1982	**$ 4,123,000**	$ 5,954,000
4¾% Subordinated Debentures due April 1, 1987	**26,667,000**	27,544,000
5¼% Guaranteed Convertible Debentures due March 1, 1988	**21,939,000**	25,756,000
7¾% Sinking Fund Debentures due May 1, 2001	**45,000,000**	50,000,000
7¾% Sinking Fund Debentures due November 1, 2003	**75,000,000**	75,000,000
Capitalized lease obligations	**63,911,000**	64,329,000
Other	**23,105,000**	26,084,000
	259,745,000	274,667,000
Less current portion	**6,559,000**	5,734,000
Total	**$253,186,000**	$268,933,000

The 5¼% Guaranteed Convertible Debentures are convertible at $25.25 per share into approximately 869,000 shares of common stock. At December 31, 1979, "Other" long-term debt, maturing between 1980 and 2004 at a weighted-average interest rate of 8.22% (8.16% in 1978), consists principally of foreign borrowings.

For the four years ending December 31, 1981 through December 31, 1984, the aggregate amount of maturities and sinking fund requirements for all issues are $9,667,000, $10,414,000, $8,069,000 and $13,848,000, respectively.

Other liabilities consist primarily of pension accruals and incentive compensation awards. Pension accruals have been established to cover U.S. prior service liabilities and pension obligations of subsidiaries operating in countries where it is customary for companies to administer their own pension plans.

Retirement plans—The Company has a voluntary noncontributory pension plan approved by the shareholders for employees not covered by union pension plans. Certain subsidiaries have similar plans. In general, the plans provide for retirement benefits based on length of service and the employee's earnings up to age 65. The pension expense includes a provision for current service costs and, where applicable, amortization of unfunded prior service liabilities over primarily a 40-year period.

Annually, the Company pays to independent investment managers amounts computed on an actuarial basis to provide for the successful operation of its pension plan. In addition, union pension plans require contributions as defined in the union agreements. Total pension expense amounted to $43,028,000 in 1979 and $39,233,000 in 1978. The amount necessary to fund all prior service liabilities under Nabisco plans is estimated to be $141 million at December 31, 1979. At the most recent actuarial valuation dates, estimated vested benefits exceeded the value of trust assets by approximately $87 million.

Incentive compensation—The Nabisco Incentive Compensation Program, as approved by the shareholders, provides for incentive awards to employees selected by the Compensation Committee of the Board of Directors, whose members are not eligible for awards. The amounts of the awards are determined by the Compensation Committee based on the relationship of profit performance to predetermined short- and long-term goals. Under the Program, provisions of $4,380,000 and $4,100,000 were made in 1979 and 1978, respectively.

Transactions with respect to options previously granted under the Employee Stock Option Plan (1969) are summarized as follows:

	1979		1978	
	Shares	**Option Price***	Shares	Option Price*
Exercised	**38,440**	**$18.65**	57,904	$20.24
Expired or cancelled	**13,360**	**25.84**	19,040	25.58
Outstanding and exercisable, end of year	**300,422**	**22.05**	352,222	21.83

*Represents the weighted-average price per share on the dates options were granted.

Foreign exchange adjustments resulting from translation, transactions and forward foreign exchange contracts amounted to losses, net of taxes, of $5,045,000 in 1979 and $6,670,000 in 1978. Forward foreign exchange contracts are used to hedge foreign inventory exposures and translation exposures as defined under SFAS No. 8. The difference between translating such exposed inventories at historical versus current rates resulted in favorable adjustments to cost of sales of $2,900,000 and $4,700,000 in 1979 and 1978, respectively.

Income taxes—Effective January 1, 1979, the U.S. Federal statutory rate was reduced from 48% to 46%. A reconciliation of the statutory rate to the reported rate follows:

	1979		1978	
	Amount	**%**	Amount	%
Computed at statutory rate of pretax earnings	**$ 92,051,000**	**46**	$100,457,000	48
State and local income taxes, net of federal tax benefit	**6,202,000**	**3**	5,940,000	3
Other	**2,083,000**	**1**	1,336,000	—
As reported	**$100,336,000**	**50**	$107,733,000	51

The deferred income tax provision, principally U.S. Federal taxes, results from:

	1979	1978
Excess of tax over book depreciation	**$6,687,000**	$9,929,000
U.S. investment tax credit	**430,000**	1,755,000
Other, net	**(3,293,000)**	(1,733,000)
Total	**$3,824,000**	$9,951,000

U.S. income and foreign withholding taxes are being provided currently on foreign subsidiaries' net earnings that are expected to be distributed to the parent company.

Over the years, the Company has indefinitely reinvested approximately $78,000,000 of foreign subsidiaries' retained earnings to meet their operating and long-term needs and, accordingly, no U.S. income taxes have been provided on these amounts. If such earnings were distributed in the future, it is expected that the amount of additional U.S. income taxes required would not be significant because of the availability of foreign tax credits thereon.

Capital stock—On May 1, 1978, the shareholders voted a two-for-one stock split of the Company's common stock effective May 2, 1978. Accordingly, the accompanying consolidated financial statements have been adjusted to give effect to this stock split.

Notes to Financial Statements
(continued)

Supplementary income statement information:

	1979	1978
Maintenance and repairs	**$ 78,651,000**	$ 72,791,000
Depreciation	**$ 42,263,000**	$ 40,464,000
Taxes, other than income taxes		
Payroll	**$ 47,453,000**	$ 42,418,000
Other, principally property	**17,163,000**	16,268,000
Total	**$ 64,616,000**	$ 58,686,000
Research and development	**$ 11,129,000**	$ 11,182,000
Media advertising	**$ 96,063,000**	$ 95,568,000
Beginning inventory for cost of sales computation	**$330,160,000**	$284,789,000

Leases—Assets related to capital leases are recorded in the accompanying balance sheets as property, plant and equipment with the related obligations included in short- and long-term debt.

Amounts included in property, plant and equipment under capital leases as of December 31 are as follows:

	1979	1978
Buildings	**$69,140,000**	$67,989,000
Machinery and equipment	**8,321,000**	8,890,000
	77,461,000	76,879,000
Accumulated depreciation	**20,925,000**	18,407,000
Total	**$56,536,000**	$58,472,000

The major portion of capital leases relates to administrative and warehousing facilities. Future minimum payments under noncancellable leases with terms in excess of one year are:

Fiscal Years	Capital Leases	Operating Leases
1980	$ 8,101,000	$ 6,691,000
1981	7,641,000	5,331,000
1982	7,056,000	4,418,000
1983	6,490,000	3,766,000
1984	6,134,000	3,271,000
1985 and thereafter	130,834,000	20,959,000
Total minimum lease payments	$166,256,000	$ 44,436,000
Less amounts representing interest and executory costs	102,345,000	
Present value of minimum lease payments	$ 63,911,000	

Nabisco's operating leases cover facilities and equipment for warehousing, transportation, administration and manufacturing. Total rent expense for all operating leases for the years ended December 31, 1979 and 1978 was $10,842,000 and $10,498,000, respectively.

Other commitments, principally for plant and equipment, approximated $14,000,000 at December 31, 1979.

Litigation—Various legal proceedings and claims are pending against the Company and certain of its subsidiaries. Although Nabisco's liability with respect to such matters cannot be ascertained at December 31, 1979, in the opinion of management and counsel of Nabisco, the ultimate liability, if any, from all pending legal proceedings and claims will not affect materially Nabisco's financial position or the results of its operations.

Current replacement cost information (unaudited)—Under rules of the Securities and Exchange Commission, current replacement cost information for certain assets and expenses is disclosed in Nabisco's Annual Report Form 10-K which is filed with the Commission.

This information shows that the current replacement costs of Nabisco's inventories, plant and equipment are higher than the comparable historical amounts shown in the Consolidated Balance Sheet. Additionally, cost of sales and depreciation expense calculated using replacement costs are also higher than the comparable historical amounts. However, the higher replacement cost depreciation expense would be substantially offset by cost savings which would result from the replacement of existing assets with assets of improved technology.

Other financial information—The following additional financial information appears elsewhere in this report:

Geographic areas and Business segments	pages 22 and 23
Quarterly financial data (unaudited)	page 22
General inflation data (unaudited)	pages 24 and 25

Directors and Officers

Board of Directors

LEE S. BICKMORE*
Chairman of the Executive Committee

VAL B. DIEHL*
President and Chief Operating Officer

KENNETH C. FOSTER*†
Former President
The Prudential Insurance Company of America

DR. HELEN A. GUTHRIE†
Professor of Nutrition
Pennsylvania State University

ROBERT W. HAACK*‡§
Director of various corporations, former Chairman of the Board, Lockheed Corporation and former President of the New York Stock Exchange

JAMES L. HAYES‡§
President and Chief Executive Officer, American Management Associations, Inc.

CHARLES E. HUGEL†
Executive Vice President
American Telephone & Telegraph Co.

MORRIS L. LEVINSON
President, Associated Products, Inc., a Nabisco subsidiary

DEAN R. McKAY‡
Senior Vice President
International Business Machines Corp.

WILLIAM H. MOORE*§
Director and former Chairman of the Board, Bankers Trust New York Corporation and Bankers Trust Company

DR. ALBERT REES†
President, Alfred P. Sloan Foundation

MATTHEW B. ROSENHAUS*
Vice Chairman of the Board and Chairman of The J.B. Williams Co., Inc., a Nabisco subsidiary

ROBERT M. SCHAEBERLE*
Chairman of the Board and Chief Executive Officer

WILLIAM C. TURNER‡
Chairman
Argyle Atlantic Corporation

WILLIAM S. WOODSIDE‡
President and Chief Operating Officer
American Can Company

*Member of the Executive Committee
†Member of the Audit Committee
‡Member of the Compensation Committee
§Member of the Nominating Committee

Office of the Chairman

ROBERT M. SCHAEBERLE
Chairman of the Board and Chief Executive Officer

MATTHEW B. ROSENHAUS
Vice Chairman of the Board

VAL B. DIEHL
President and Chief Operating Officer

WARREN J. ROBERTSON
Executive Vice President—Administration

Group and Senior Vice Presidents

RICHARD S. CREEDON
Senior Vice President

ROBERT J. JONES
Group Vice President

C. RICHARD OWENS
Senior Vice President and Chief Financial Officer

ROBERT J. POWELSON
Group Vice President

EDWARD P. REDDING
Group Vice President

ROBERT L. SANFORD
Senior Vice President

JAMES O. WELCH, JR.
Group Vice President

Vice Presidents

W. LEE ABBOTT
Corporate Communications

RICHARD H. GAVOOR
Controller

WAYNE W. GUEST
Corporate Customer Relations

WALTER S. HALLIDAY, JR.
General Counsel

CLAUDE B. HAMPTON
President, Biscuit Division

EDWARD J. MATTHEWS, JR.
Corporate Development

JOHN B. McGOVERN
Personnel Relations and Public Affairs

CARL R. PILZ
Purchasing

G. F. RANDOLPH PLASS, JR.
President, Special Products Division

WILLIAM J. TOBIN
President, Food Services Division

CAROL S. TUTUNDGY
Investor Relations

HARRISON M. BAINS, JR.
Treasurer

KENNETH M. HATCHER
Secretary

Principal Operations

U.S. Foods
Atlanta, Georgia (Cookies, crackers)
Beacon, New York (Carton printing plant)
Bridgeview, Illinois (Snack foods)
Buena Park, California (Cookies, crackers, snack foods)
Buhler, Kansas (Flour mill)
Buffalo, New York (Frozen foods)
Buffalo, New York (Pet foods)
Cambridge, Massachusetts (Candy)
Carthage, Missouri (Flour mill)
Cheney, Washington (Flour mill)
Chicago, Illinois (Cookies, crackers, pretzels, toaster pastries, ice cream cones)
Danville, Illinois (Candy)
Denver, Colorado (Pet foods)
Evanston, Illinois (Machine shop)
Fair Lawn, New Jersey (Cookies, crackers)
Fair Lawn, New Jersey (Research and development)
Houston, Texas (Cookies, crackers, snack foods)
Inman, Kansas (Flour mill)
Los Angeles, California (Candy)
Mansfield, Massachusetts (Chocolate, candy)
Marseilles, Illinois (Boxboard mill and carton printing plant)
Minneapolis, Minnesota (Cereals)
Morristown, Indiana (Textured vegetable protein)
Naperville, Illinois (Cereals, cake mixes)
Niagara Falls, New York (Cereals)
Oakland, California (Cereals)
Philadelphia, Pennsylvania (Cookies, crackers)
Pittsburgh, Pennsylvania (Cookies, crackers, snack foods)
Portland, Oregon (Cookies, crackers, ice cream cones)
Richmond, Virginia (Cookies, crackers, pretzels)
St. Louis, Missouri (Crackers)
Toledo, Ohio (Flour mill)
Tualatin, Oregon (Pet foods)
Woodbury, Georgia (Pimientos, dates, steamed breads, peanuts)
Wrightstown, Wisconsin (Cheese spreads)

International Foods
EUROPE

Denmark
Oxford Biscuit Fabrik, A/S (Cookies, crackers)

England
Nabisco Limited:
Nabisco Foods Division (Cereals, cake mixes)
Nabisco-Frears Biscuits Division (Cookies, crackers)

France
Biscuits Belin, S.A. (Cookies, crackers, snack foods)
International Training and Research Center (Training and research)

Italy
Saiwa, S.p.A. (Cookies, crackers, candy, snack foods)

Spain
Galletas Artiach, S.A. (Cookies, crackers)

CANADA
Christie, Brown & Company, Limited (Cookies, crackers, cereals, pet foods, flour mill)

AUSTRALIA/NEW ZEALAND

Australia
Nabisco Pty., Limited (Cookies, crackers, cereals, pasta, nuts)

New Zealand
Griffin & Sons Limited (Cookies, crackers, candy)

LATIN AMERICA

Dominican Republic
Tamara, C. Por A. (Cookies, crackers)

Nicaragua
Industrias Nabisco Cristal, S.A. (Cookies, crackers)

Puerto Rico
Arbona Hermanos Division, Nabisco International, S.A. (Cookies, crackers)

UNCONSOLIDATED FOREIGN AFFILIATES

Japan
Yamazaki-Nabisco Co., Ltd. (Cookies, crackers, snack foods)

Mexico
Nabisco—Famosa, S.A. (Cookies, crackers, pasta, cake mixes)

Venezuela
Nabisco-La Favorita C.A. (Cookies, crackers)

Toiletries and Pharmaceuticals
Booneville, Arkansas (Combs, brushes)
Cranford, New Jersey (Toiletries, pharmaceuticals)
Lamco A/S, Denmark (Toiletries)
The J.B. Williams Co. S.A., France (Toiletries)
The J.B. Williams Co., Canada (Toiletries)

Household Accessories
Brooklyn, New York (Shower curtains, table cloths)
Cape May, New Jersey (Fabrics)
Clifton, New Jersey (Fabrics)
Closter, New Jersey (Fabrics)
Gardena, California (Shower curtains, table cloths)
Landers & Cia. S.A., Colombia (Housewares)

Corporate Data

Principal Exchanges
New York
Midwest
Pacific
Amsterdam
Paris

Ticker symbol: NAB

Transfer Agents
Bank of New York
90 Washington Street
New York, N.Y. 10015

The First National
Bank of Chicago
One First National Plaza
Chicago, IL 60670

Crocker National Bank
Corporate Division
P.O. Box 38005
San Francisco, CA 94138

Registrars
Bank of New York
90 Washington Street
New York, N.Y. 10015

The First National
Bank of Chicago
One First National Plaza
Chicago, IL 60670

Bank of America
Corporate Agency Division
Box 37002
San Francisco, CA 94137

Debentures Trustees
Bankers Trust Company
16 Wall Street
New York, N.Y. 10015

Morgan Guaranty
Trust Company
of New York
23 Wall Street
New York, N.Y. 10015

Auditors
Coopers & Lybrand
1251 Avenue of the Americas
New York, N.Y. 10020

Shareholder Information
Current shareholders are requested to address all questions concerning their securities or dividends, as well as requests for proxy materials, address changes, or other shareholder information, to the Secretary, Nabisco, Inc., East Hanover, N.J. 07936, or by telephone, (201) 884-0500.

Availability of Form 10-K
In the opinion of management, the Financial Statements in this Annual Report to Shareholders include substantially all financial data in the Annual Report Form 10-K, filed with the Securities and Exchange Commission.

However, the Company's Annual Report Form 10-K is available on request without charge from the Investor Relations Department, Nabisco, Inc., East Hanover, N.J. 07936, or by telephone, (201) 884-0500.

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**Nabisco...
America's Cookie Jar**

**Nabisco, Inc.
East Hanover, N.J. 07936
(201) 884-0500**